



**Comments of  
Pete Sepp, President  
National Taxpayers Union  
Before the  
Postal Regulatory Commission  
Washington, DC 20268-0001  
On the  
2014 Annual Compliance Report**

**February 2, 2015  
Docket No. ACR2014**

Pursuant to Commission Order No. 1935, National Taxpayers Union (NTU) hereby submits these comments in response to the U.S. Postal Service's (USPS) Annual Compliance Report for Fiscal Year 2014 ("FY 2014 ACR"). NTU and its thousands of members across the United States are pleased to provide these observations and recommendations so as to highlight the need for the Postal Service to employ better practices in tracking and attributing its product costs.

NTU's members have long been concerned about the financial management of the United States Postal Service and the impact of USPS's business practices on the economy as a whole. Our organization has been involved in postal reform issues since the late 1970s, advocating for taxpayers, consumers, and businesses on issues such as: pension liabilities from USPS's existence as a federal department, the First Class monopoly, impediments to private-sector competition, managerial improvements, and rate-setting accountability mechanisms.

We believe that taxpayers have a direct interest in many aspects of USPS, including operations, personnel compensation policies, and infrastructure acquisition. All of the decisions associated with these practices can impact the long-term financial health of USPS – in turn, impacting the likelihood that someday taxpayers may be unfairly saddled with liabilities the Postal Service is unable to pay. This is not idle speculation, in light of recent federal bailouts of Government-Sponsored Enterprises such as Fannie Mae and Freddie Mac. Although their structures are different from that of USPS, Fannie Mae and Freddie Mac officials insisted that there was no explicit or implicit federal guarantee behind their finances. Taxpayers discovered otherwise during the Great Recession.

The inability (or reluctance) of the Postal Service to give greater attention to product cost issues is in part evidenced by the agency's continued dedication of capital expenditures to these items – namely standard mail parcels and periodicals – which are generating insufficient revenue in relation to expenses by a significant margin. Such an inclination to persist in allocating funds for revenue-negative products year after year reflects a deficiency in operational judgment.

Products that do not cover their costs must prompt the Postal Service to either establish a more rational pricing structure or investigate the merits and ability of providing them in the future. Inversely, strong profitability is reported for several monopoly-protected products, but under the current required practices, the Postal Service is at risk of allowing market-dominant product gains to subsidize products in more competitive areas.

For cost attribution specifically, the agency assigns just 55 percent of costs to specific products while the rest is categorized as "institutional overhead." This current lack of transparency in accounting leaves the Postal Service unable to fully trace all costs or products and how they are imposed. As postal expert Don Soifer, President of the Lexington Institute, pointed out in a recent commentary for *The Detroit News*:

[O]nly half of that [institutional overhead] goes toward actual fixed costs, like utilities or vehicles, according to the latest report from its regulator. Add it all up, and there's no doubt that the Postal Service is understating billions of dollars in costs that could be attributed to specific products. ... If USPS is to avoid handing taxpayers a huge bailout bill, the agency must scrap its opaque accounting in favor of a modern, bottom-up system similar to those in use in the private sector – and by seven of the top nine major postal economies nationwide.

Products such as letter delivery – which are mandated by the agency's original charter – are now further likely to be subjected to rate increases and diminishing investments as the competitive products mix grows. In essence, the mail delivery services that Americans have come to expect are now likely to experience declining standards of reliability and affordability.

In fact, the Postal Service is witnessing an unfavorable trend as delivery times are expected to become slower – increasing from 1.8 days to 2.1 days on average. As customer satisfaction declines, there remains an absence of measures that can mitigate the operational and financial troubles of agency. This paucity is evident in Congress as well, where reform efforts have stalled.

NTU respectfully calls on the Commission to address the Postal Service's improper accounting measures for the purposes of repairing its languishing financial position. The concerns are clear, as the agency has sustained a net loss in 22 of the last 24 quarters, including \$5.5 billion in FY 2014 alone.

Compounding the financial concerns is the agency's propensity to advance new and unproven services that strain its operations, yet lack proven financial benefits. Offerings such as seven-day package delivery, grocery delivery, and same day delivery have been found to be riddled with inefficiencies, have overwhelmed much of its workforce, or have lost money.

As these trends continue, the nation's taxpayers have legitimate reason to grow further concerned about how the federal government may seek a remedy. In representing these citizens who must ultimately make good on federal officials' pledges, our nonprofit, nonpartisan organization seeks to ensure that regulatory bodies such as this Commission take the necessary steps now to prevent major difficulties in the future.

NTU recognizes that there can be economic and social value to providing efficient letter delivery services, whether through USPS or other means. As such, we request that the Commission thoroughly scrutinize the operations and accounting methods used by the Postal Service in weighing costs and benefits of monopoly-protected products versus others in the competitive sphere.

In sum, we encourage prioritizing improvements in attributable costing with the respect to the Postal Service and its reporting to the Commission. Should you wish to discuss these recommendations further, NTU's staff is at your service. Thank you for your consideration.

Respectfully submitted,



Pete Sepp  
President